

ILLEGIB

NOTE on: Proposed Outline for Estimating and Reporting Costs.

1. It should be emphasized that the attached outline, proposed to improve reporting of estimated foreign-intelligence costs, is subject to the same general qualifications with which the Cost Estimates Committee has prefaced its current proposed Instruction for reporting costs for Fiscal Year 1960. In particular:

a. Estimates should include both Direct and Indirect Obligations, and be developed on the basis of actual obligations incurred (or costs accrued, for agencies on that basis) during the reporting period.

b. The various departmental totals, and their "broken-down" component items, are generally valid only as approximations of orders of magnitude, involving a large element of judgment -- much of it necessarily largely arbitrary -- on the part of various officials in the individual Departments, and in many separate Commands and other subordinate elements.

2. It should be recognized by all concerned that no "hard and fast" instructions can be laid down which can automatically prescribe the particular "heading" under which individual cost items necessarily belong and should be reported. For example, certain "General Support" activities (such as training, research and development, communications and administrative overhead) may be so intimately tied to a particular Collection, Processing or Production activity -- and be so integrally involved, accounting-wise, in a single administrative and operating activity -- that it is both difficult and undesirable to separate such support elements out from the particular collection, processing or production activity with which they are involved. Yet in other departments (or other activities in the same department) very similar training, R&D, communications or administrative support may be provided by separate offices or staffs (with their own separate accounts), and thus seem more logically and easily reported under the broad categories of general "Training," "R&D," etc.

25X1D

25X1

25X1D

25X1A

3. In cases like the above only a "Rule of Reason" can usefully guide the calculations of the separate reporting components. As a result of 9 years efforts to improve its budget and cost presentations, CIA is probably now in position to break its costs down in greater detail, and with better adjustment to whatever particular functional patterns may be desired, than are other USIB members. State and the Military Services have particularly difficult conceptual problems in developing meaningful estimates for many of their activities -- particularly for those overseas activities in respect to which the distinction between "intelligence" and normal "departmental operations" may be hard to draw. The judgments which must be applied by administrators in developing any cost estimates are unlikely to be the same for all reporting elements, and indeed are likely to vary with the individual official concerned. Therefore a high degree of direct COMPARABILITY among the different departmental figures may well prove an unrealistic goal, at least with present budgeting, appropriation and accounting systems. Comparability of the detailed costs of a particular department from year-to-year may well prove a more reasonable -- perhaps even a more useful -- goal. Once a reporting instruction that reasonably meets the needs of top intelligence-budgeting and intelligence-management (USIB) officials has been agreed and adopted, it may be wise to adhere to it without further revisions for several successive annual estimates in order that year-to-year changes in totals and sub-totals, of the separate USIB-member agencies shall be as meaningful as possible. Individual USIB members should be encouraged to maintain continuity in policies and interpretations of definitions from year-to-year, to assure the greatest utility for these reports.

O-AC/DCI
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